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ONTARIO ENERGY BOARD

1993-

1994

Annual

Report

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Minister
Ministre

Ministry of
Environment
and Energy

Ministère de
l'Environnement
et de l'Énergie

135 St. Clair Avenue West
Suite 100
Toronto ON M4V 1P5

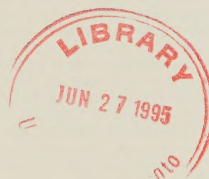
135, avenue St. Clair ouest
Bureau 100
Toronto ON M4V 1P5

The Honourable Henry N.R. Jackman
Lieutenant Governor of the
Province of Ontario


I hereby submit the annual report of the Ontario Energy Board. It reviews the events and activities of the fiscal year of 1993-1994

Respectfully submitted,

C.J. (Bud) Wildman
Minister



RESPONDING TO A DYNAMIC ENERGY MARKETPLACE

The Ontario Energy Board (OEB) plays an important part in Ontario's natural gas and electricity sectors, industries which make an indispensable contribution to the province's economic strength and quality of life. 

In the current economic climate, the question of government's proper role in the economy is hotly debated. From the Board's perspective, regulation is required when allowing the marketplace to operate freely would result in outcomes that are unjust or inefficient. Where competition can produce equitable and efficient results that best serve the public, regulation should be reduced as much as possible.

This line of thinking leads to the conclusion that regulation should diminish as markets become more competitive. Clearly, if this is the case, the need for government intervention will vary with economic trends, and regulatory tribunals must exercise their powers in a way that evolves with changing market conditions.

The Canadian natural gas industry is reacting to these changes, as the move towards deregulation begun in the mid-1980s continues to gather momentum. Recently, natural gas prices have become more volatile and uncertain. As the relative price advantage of natural gas comes under pressure, the industry must continue to be innovative if it expects to keep natural gas consumption efficient and affordable.

Under such conditions it is incumbent on

the industry's regulator to be proactive and adapt to change. While the OEB does not have an explicit mandate to promote the competitiveness of the natural gas industry, we are well aware that our actions must not inadvertently distort market forces or create barriers to the industry's growth.

In 1993-94, the Board addressed the dynamics of the changing natural-gas marketplace in three major joint proceedings. In fact, this was one of the most challenging years in memory in terms of the magnitude and complexity of our caseload.

In one proceeding, we examined a new approach to gas costs which links the prices paid by utilities to commodity price indexes. The emergence of indexing is an example of the more open and competitive gas market that is developing as deregulation proceeds. Increasingly, natural gas is trading as a commodity with more transparent pricing mechanisms.

While indexing obviously complicates the forecasting of gas costs, the utilities considered it prudent in 1993-94, when producers expected prices to rise. The main issue for the Board, of course, is to determine whether the use of indexed prices rather than fixed prices is in the public interest.

In our decision, we approved the gas-cost consequences of the utilities' supply portfolios on a transitional basis. We emphasized that we expect the utilities to take all reasonable steps to manage the risks of this new approach through appropriate financial instruments. We also directed the utilities to notify the Board when actual gas costs vary from forecast costs by a predetermined amount, so that the need for a gas-cost adjustment to rates can be promptly assessed.

A second case arising from the competitive dynamics of the marketplace involved the supply end of the pipeline. Brokers and utilities had reached an impasse over a number of issues related to direct-purchase arrangements in a market where supply was tightening and prices were rising. The Board is pleased that the workshop, settlement conference and joint hearing served to get the parties back on track in search of common ground.

A third key case — heard in 1992-93, with the decision issued this year — examined demand-side management aspects of integrated resource planning (IRP) in the natural gas industry. Because society is placing increasing emphasis on the environment, the Board believes that outcomes produced by the energy sector should be compatible with sustainable development.

One possible route to sustainable development is IRP, in which energy needs are met by the least-cost combination of supply-side and demand-side measures. However, if IRP is expected to produce sustainable results, the analysis must be based on the total costs to society. With this in mind, the Board encouraged the gas industry to form a joint collaborative with other stakeholders to measure the environmental costs and benefits of DSM programs.

At the same time, the Board recognized the potential problem that would develop if gas rates were required to reflect social and environmental factors while the prices of other fuels were not. In our Report we directed the utilities to limit the DSM rate impact to avoid creating price differences that would induce gas customers to switch to less environmentally friendly fuels.

The electricity industry is also undergoing change driven by rising competitive pressures.

In February 1994, the Minister of Environment and Energy referred to the Board the question of the implications of Ontario Hydro's restructuring, in addition to asking us to conduct our usual review of Hydro's proposed bulk power rate changes. In our advisory role, we will assess the utility's restructuring initiatives and rate proposals, to determine if they are in the public interest.

In the main gas rates hearings this year, as well as in the direct-purchase and DSM proceedings, the Board continued to use a settlement process based on alternative dispute resolution methods. We believe that using a settlement approach can decrease the cost of regulation by minimizing adversarial debate and by utilizing our resources more efficiently.

The introduction of settlements, consultations and collaboratives promises to create a spirit of co-operation that has not always characterized cost-of-service regulation. Over the long term, we are confident the balanced voice of a more co-operative approach will assist the Board in enhancing the quality of regulation, heighten sensitivity to changing markets, and help to ensure that consumers continue to have safe and reliable access to energy at fair prices.

The Board looks forward to renewed partnership with its stakeholders to anticipate change and foster a business climate in which gas and electric utilities can respond effectively to competitive challenges. Together, we must search for innovative solutions and be receptive to new directions.

Marie C. Rounding

Marie C. Rounding
Chair

BOARD MEMBERSHIP

(as of March 31, 1994)

CHAIR:



Marie C. Rounding, a lawyer and former teacher, has been Chair of the

Ontario Energy Board since January 1992. She has held a number of senior positions with the Ontario Ministry of the Attorney General, with a focus on administrative and regulatory law. Immediately prior to joining the Board as Chair, she was Director of the Crown Law Office—Civil Law. Ms. Rounding is Chair of the Regulatory Affairs Committee of the Canadian Association of Members of Public Utility Tribunals and a Director of the Council of Canadian Administrative Tribunals.

VICE-CHAIR:



Appointed Vice-Chair in June 1993, **George A. Dominy** has extensive

experience in the energy field in both the private and public sectors. Prior to joining the Board, he served as Director of the Electricity, Oil and Gas Branch at the Ministry of Environment and Energy. Mr. Dominy holds a master's degree in mathematics from Cambridge University.

MEMBERS:



Carl A. Wolf, Jr., a chemist, joined the Board in September 1986 after

a varied 29-year career with Union Carbide, where he administered the company's energy affairs. Prior to his appointment, he was also Vice-Chairman of the Industrial Gas Users Association and a member of a number of industry associations and government energy-policy groups.



C. William W. Darling was appointed to the Board in February

1990 following an extended career with C-I-L Inc., a major consumer of energy in heating, process and feedstock applications. His last 10 years at C-I-L were spent in purchasing and policy development posts related to energy and feedstocks. He holds a master of science degree in chemical engineering from Queen's University.



Pamela W. Hardie, a lawyer formerly with the Ontario Securities Commission,

joined the Board in July 1990. She has had experience with other boards and with the Office of the Ombudsman.



Formerly Manager, Market Analysis and Forecasts at Trans-

Canada Pipelines Limited, **Judith C. Allan** was appointed to the OEB in September 1990. She holds a bachelor's degree in mathematics and master's degrees in economics and business administration.



Edward J. Robertson became a Board Member in May 1992. He joined the Ontario

Ministry of Industry and Tourism in 1977. In 1983 he was appointed Deputy Minister of Economic Development in the Manitoba government. He served as Chairman of the Manitoba Public Utilities Board from 1988 to 1992. He has extensive private sector experience in the United Kingdom, including service from 1972 to 1977 as a Director of the Confederation of British Industries in London.



Lawyer **Cheryl L. Cottle** was formerly a Senior Legal Counsel with the

Ministry of the Attorney General, assigned to the Automobile Insurance Review Project. She served as Board Solicitor at the OEB from 1985 to 1988 and was appointed a Board Member in May 1992.



Chartered Accountant **Orville J. Cook** was in public practice before joining the

OEB staff in 1961. He has held a number of senior positions at the OEB including Manager, Financial Analysis, Director of Operations and Energy Returns Officer, and became a full-time Board Member in January 1985. He served as Acting Chair from July 1 to December 31, 1991, and was named Vice-Chair in November of that year. Mr. Cook was appointed a part-time Board Member in May 1993.



An environmental scientist, **Judith B. Simon** was named a part-time Board

Member in May 1992. She formerly held managerial positions with the Ministries of Industry, Trade & Technology and the Environment, and was an energy planner with the Ministry of Energy. She is currently a consultant specializing in environmental assessment and strategic planning.



F. Anne Drozd is a fellow of the Institute of Chartered

Accountants of Ontario. She is Senior Managing Director Partner and Chief Executive Officer of Frandsen: Certified Management Consultants. Ms. Drozd has practiced as a Certified Management Consultant since 1982 and has extensive experience in the regulatory environment. She was appointed a part-time OEB Member in April 1993.

ONTARIO'S ENERGY SCENE

Of all energy consumed in Ontario, about 32 per cent is provided by natural gas. We use more natural gas than any other province, and account for about 40 per cent of total Canadian gas demand. Natural gas is the principal fuel in the residential, industrial, and commercial and institutional sectors — that is, in all sectors of the economy except transportation.



Another leading energy source is electricity, which provides about 19 per cent of Ontario's energy consumption. Electricity is integral to today's information society, and is also a key resource for industries ranging from automobile manufacturing to pulp and paper and mining.

The rest of Ontario's energy needs are met by oil, coal, wood and natural gas liquids such as propane.

SELLING AND DISTRIBUTING NATURAL GAS

Ontario obtains some 94 per cent of its natural gas from the Western provinces by way of the TransCanada PipeLines Limited and associated systems. In addition, we import about 2 per cent of our gas from the United States and produce approximately 3 per cent ourselves.

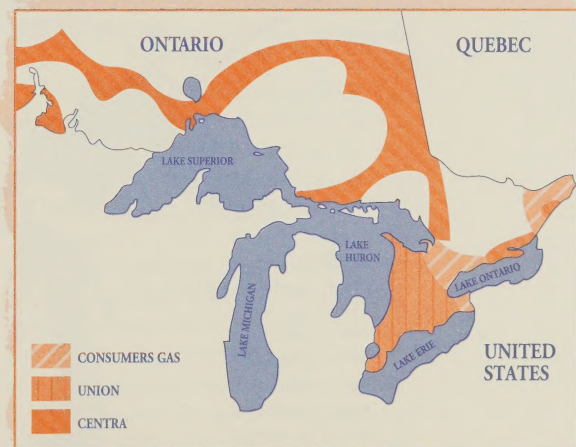
Since the distribution of gas involves a capital-intensive network of pipelines and storage facilities, a monopoly arrangement is necessary to avoid costly duplication of facilities. Most natural gas in Ontario is distributed by three utilities holding franchises and certificates to transport gas in specific areas of the province.

The commodity cost of gas from Western Canada accounts for about one third of the typical residential sales rate. The balance of the rate covers transportation from the West and the distribution and operating costs of the local distribution company.

Since 1985 the Canadian natural gas industry has moved steadily toward a deregulated market. Wholesale natural gas prices are no longer set by the Alberta and federal governments. We now have a much more competitive marketplace where all customers — from the largest industrial user to the smallest residential consumer — can buy gas directly from producers. Customers, of course, still have the option of purchasing gas from local distributors at Board-approved rates, as in the past.

Where gas is purchased directly from the producer, the buyer has to make the necessary transportation arrangements to carry the gas to its destination in Ontario. Small gas users often participate in direct-purchase arrangements as part of a large purchasing group. In these cases the broker is responsible for arranging the transportation requirements with TransCanada PipeLines Limited and the local distribution utility in Ontario.

NATURAL GAS FRANCHISE AREAS



The North American transmission network is becoming more diverse and accessible. Recent regulatory changes in the United States will permit Canadian purchasers of U.S. gas to obtain more dependable transmission capacity than in the past. As a result, Canadian purchasers should be able to negotiate better prices with a wider range of gas suppliers.

Closer to home, pipeline developments have been proposed that would provide new links to the U.S. transmission network as well as alternate routes for Western Canadian gas to reach Ontario markets. If approved, these developments should also increase competition in the marketplace.

GENERATING AND DISTRIBUTING ELECTRICITY

Ontario Hydro, a provincially owned corporation, is responsible for most generation and transmission of electricity in Ontario. Hydro's system includes 69 hydroelectric stations, eight fossil-fueled stations and five nuclear stations, plus a 135,000-kilometre transmission grid.

Local distribution systems in most areas of the province are owned and operated by 309 municipal utilities, which buy power wholesale from Ontario Hydro and then sell it to more than 2.6 million residential and business consumers. Ontario Hydro also sells directly to some 945,000 retail customers and 104 major industrial users. The wholesale rates that Hydro charges municipal utilities and large industrial customers are referred to as bulk power rates.

In 1993 Ontario Hydro undertook a significant cost-reduction and restructuring initiative. The corporation downsized its workforce by 24 per cent and reorganized into three business units — the Electricity Group, the Energy Services and Environment Group, and the Enterprises Group, which includes Hydro's research and international activities. Each of the three units has a high degree of operating responsibility and accountability.




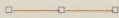
Andrew Barrett,
Project Co-ordinator and
Cynthia Chaplin,
Senior Project
Manager

ONTARIO'S GAS PIPELINE SYSTEM



OEB MANDATE AND PROCEDURES

Reporting to the Minister of Environment and Energy, the Ontario Energy Board (OEB) is a regulatory agency of the Ontario government. The Board regulates natural gas utilities and reviews changes in Ontario Hydro's bulk power rates. We also advise the Minister of Environment and Energy, the Minister of Natural Resources and the Lieutenant Governor in Council (LGIC) on energy matters. 



The OEB's primary objective is to guarantee that the public interest is served and protected. When setting or recommending rates, the Board considers the competing interests of consumers, investors and the environment.

LEGAL AUTHORITY

Most of the OEB's responsibilities are established by the *Ontario Energy Board Act*. In addition, six other statutes give jurisdiction to the Board: the *Municipal Franchises Act*, the *Petroleum Resources Act*, the *Public Utilities Act*, the *Assessment Act*, the *Toronto District Heating Corporation Act* and the *Intervenor Funding Project Act*.

The procedures of the Board, as an administrative tribunal, are governed by the *Statutory Powers Procedure Act*. The OEB also follows its own Draft Rules of Practice and Procedure. The Board is subject to the financial and administrative policies established by Management Board of Cabinet and the Minister of Finance.

ROLES AND RESPONSIBILITIES

SETTING NATURAL GAS RATES

In Ontario, private gas utilities cannot set their own selling prices. They are required by legislation to submit their proposed rates to the OEB for review

and approval. Rates are established for each utility following a public hearing, which typically lasts three to four weeks. Where users purchase gas directly from producers, the OEB controls the rates that utilities may charge for transporting the gas in Ontario.

Gas sales rates vary among classes of customers: residential, commercial, industrial and wholesale. In setting rates, the Board first determines the appropriate level of expenses incurred by the utility to meet its total system requirements. We then determine how these costs should be allocated throughout the system based on the varying demands of different classes of customers.

The Board sets rates as low as possible while providing investors in the utility with the opportunity to earn a fair return. Rates should be just and reasonable for both the customer and the shareholder.

In making its decisions, the Board weighs the utility's past, present and projected expenses and determines whether the costs are prudent. It also considers current and forecast economic conditions and trends, the earnings expectations for the utility investors, and the quality of service the utility provides.

If a utility's financial picture changes significantly between rate hearings, the Board may hold an interim hearing to grant rate relief to either the company or its customers. Interim rates are subject to revision and are not final until the main rates application has been heard and a decision and rate order issued.

The Board regulates the rates charged by four gas utilities in Ontario: The Consumers' Gas Company Ltd. (Consumers Gas), Union Gas Limited (Union), Centra Gas Ontario Inc. (Centra) and Natural Resource Gas Limited (NRG).

CONSUMERS GAS is Canada's largest natural gas distribution utility serving approximately 1,176,000 residential, commercial, and industrial customers in south, central and eastern Ontario. British Gas Holdings (Canada) Limited, which owned approximately 85 per cent of the common shares of Consumers Gas, entered into an agreement in November 1993 to sell its interest to IPL Energy Inc. The sale requires the approval of the Lieutenant Governor in Council and at the end of the fiscal year

A hearing in progress.



the Board's report and recommendations to the LGIC were pending. The remaining 15 per cent of Consumers Gas common shares are publicly traded.

UNION is the second-largest gas distributor in the province, serving customers in southwestern Ontario. It also operates a network of transmission, storage, and compression facilities for customers and other utilities in eastern Ontario, Quebec and the United States. In all, Union serves some 685,000 residential, commercial and industrial customers. Union is owned by Westcoast Energy Inc.

CENTRA reaches approximately 160 communities in northern, central and eastern Ontario. The Centra system is composed of a series of lateral pipelines running off the TransCanada PipeLines system, starting at Kenora and extending to Lake Ontario and the St. Lawrence River. Centra serves approximately 214,300 customers. It is also owned by Westcoast Energy Inc.

NRG is a small privately-owned utility serving some 3,100 customers in the Aylmer area.

Ontario also has five small gas companies that are exempt from rate regulation under the OEB Act and two municipally-owned gas utilities that are not regulated by the Board.

REVIEWING ONTARIO HYDRO RATES

In 1974 the OEB's mandate was extended to include reviews of changes in Ontario Hydro's bulk power rates, which are set by the utility's board of directors. The corporation is required to submit any proposed change in its bulk power rates to the Minister of Environment and Energy, who then refers the proposal to the Board, along with full technical information and financial data.

After a public hearing, which usually runs about four weeks, the Board submits its report with recommenda-

tions to the Minister. Our role is an advisory one and our recommendations are not binding on Ontario Hydro.

REFERENCES AND GENERIC HEARINGS

The Lieutenant Governor in Council, the Minister of Environment and Energy or the Minister of Natural Resources may refer a matter to the Board for a public hearing and report. These references normally concern energy-related matters of current interest and generally attract widespread public attention. The Board's reports are advisory in nature. The Board may also hold generic hearings on its own initiative on matters under its jurisdiction.

APPROVAL OF PIPELINES

Utilities intending to construct a natural-gas transmission line in Ontario must obtain Board approval. The Board assesses whether the proposed construction is in the public interest, by considering need, safety, economic feasibility, community benefits, security of supply and environmental impact.

Before a formal application is filed with the Board, a pipeline-construction proposal is reviewed by the Ontario Pipeline Coordination Committee (OPCC). Chaired by an OEB staff member, the OPCC is an interministerial committee that considers the environmental and safety aspects of pipeline construction and is comprised of members from the Ministries of Agriculture, Food & Rural Affairs; Environment & Energy; Consumer & Commercial Relations; Natural Resources; Culture, Tourism & Recreation; Municipal Affairs; and Transportation. Regional agencies are also represented as required.

The OEB's environmental guidelines for locating, constructing, and operating pipelines in Ontario set out the Board's expectations. Revisions to the guidelines are in the final stages of completion. As a last step, we plan to organize a workshop for stakeholders and Board staff to discuss the socioeconomic impacts that will be covered.

APPROVAL OF FRANCHISE AGREEMENTS

Each municipality may grant a gas utility the right to provide gas service and use road allowances or

utility easements within its borders. The specific terms and conditions of the franchise agreement must be approved by the Board. Many of the existing agreements, in place for 30 years or more, are expiring. A model franchise agreement was introduced in 1988 as the basis for new and renewed agreements.

CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

No person is allowed to construct any works to supply gas without Board approval. The approval, in the form of a certificate, is not given unless public convenience and necessity support the extension of service.

APPROVAL OF STORAGE FACILITIES

The capacity to store gas is vital to the natural gas distribution system in Ontario. The main storage sites are depleted geological reservoir formations in southwestern Ontario. Supplies stored in these facilities are used to meet fluctuating demand and can be tapped in case of emergency.

Gas is normally injected into storage during the summer months, when demand is low and purchases are less costly, and withdrawn in high-consumption periods during the winter. Storage also enables Ontario distributors to balance their loads throughout the year and reduce their gas costs. This load balancing makes it possible for the pipeline system to operate efficiently.

Gas may not be injected into any geological formation unless it is a designated gas-storage area. The Board recommends to the Lieutenant Governor in Council areas that are suitable for designation, and may authorize their use, after approval by the Lieutenant Governor in Council. The Board also determines the compensation payable to the owners of land where the storage pools are situated, if the parties cannot reach agreement.

Applications for drilling permits for wells within a designated gas-storage area must be referred to the Board by the Minister of Natural Resources, whose ministry issues the permits. The Board's recommendation in these cases is binding.

The Board also regulates certain other aspects of the drilling and operation of gas or oil wells.

CHANGES OF UTILITY OWNERSHIP

Permission of the Lieutenant Governor in Council is required when a utility wishes to sell its assets or amalgamate with another utility. Approval of the Lieutenant Governor in Council is also necessary when any person wishes to acquire shares of a utility that will result in ownership by that person of more than 20 per cent of any class of shares. Applications for such changes in ownership of utilities must be made to the Board for a hearing and report.

COMPLIANCE WITH UNDERTAKINGS

As a condition of approval of a sale or amalgamation of a utility, the Lieutenant Governor in Council may require the utility and its new owner to enter into specific undertakings, such as commitments to maintain financial integrity.

A utility may request an exemption from an undertaking so it can proceed with a specific transaction. When this occurs, the Board assesses the merits of the application and determines whether a hearing is required. Approval of the request can be provided with or without a hearing. If the application is approved, the Board may attach conditions to the approval.

PROCEDURAL INITIATIVE

Through consultation and co-operative effort with the utilities and other parties, the Board has been experimenting with new procedures that have the potential to increase regulatory efficiency and effectiveness. Our primary procedural initiative has been settlement processes or alternative dispute resolution.

We encourage the use of settlement processes to reduce the length and complexity of hearings. This approach was used in all major rates cases in 1993-94 as well as in the direct-purchase proceeding.

Under this concept the parties meet prior to the formal hearing to clarify and focus issues and seek a consensus where possible. At settlement conferences this year, agreements were reached by such diverse parties as the Consumers' Association of Canada (Ontario), Pollution Probe, Energy Probe, the Industrial Gas Users Association and the utilities.

Refinements were introduced this year to make the settlement process more flexible and ensure that

the resulting agreements are as useful as possible to the Board. The timing of meetings was changed so participants could return to their constituents for consultation and direction. The Board emphasized that under the current legislation, its findings must be based on its assessment of the evidence. Therefore, the parties must provide a strong rationale and evidentiary base for the positions presented to the Board in settlement agreements. The Board will require further information when it is not satisfied with the level of detail provided in a settlement report.

INTERVENOR FUNDING

Since energy production, distribution and use have a wide impact on society, the Board's activities can affect a variety of interest groups. Intervenor in our proceedings range from consumer and environmental organizations to marketers, suppliers, landowners and aboriginal organizations. Parties appearing before the Board in 1993-94 are listed in the "Public Participation" section at the back of this annual report.

The *Intervenor Funding Project Act* establishes a procedure for providing advance funding to intervenors before a number of boards, including the Ontario Energy Board, thereby reducing financial barriers to participation. These funds are used to cover the costs of lawyers, expert consultants and administrative expenses. In 1993-94 the Board awarded \$660,304 in advance funds to 16 intervenors, including Pollution Probe, Energy Probe, the Consumers' Association of Canada (Ontario) and the Ontario Coalition Against Poverty among others.

In addition to the advance funding, the OEB and other boards also have jurisdiction to award costs at the conclusion of a proceeding. Any intervenor funds provided before a proceeding are, of course, deducted from the total amount awarded at the end. Intervenor before the OEB have an opportunity to receive 100 per cent of their reasonably incurred costs, provided that in the Board's opinion they participate responsibly and contribute in a meaningful way to the Board's understanding of the issues.

During the 1993-94 fiscal year, the Board issued 72 intervenor cost orders at the conclusion of 32 proceedings. The amounts awarded totalled \$2,154,020.

ADVANCE INTERVENOR FUNDING AWARDS 1993-94

Case Type	File Number	Proponent/ Applicant	Number of Applications	Number of Successful Applications	Amounts Requested*	Amounts Awarded*
NATURAL GAS RATES APPLICATIONS						
EBRO	474-B/483/ 484	Centra	4	4	\$215,755	\$179,638
EBRO	485	Consumers	4	4	\$201,503	\$193,589
EBRO	487	Consumers	4	4	\$250,515	\$177,489
COMBINED HEARING - DIRECT PURCHASE						
EBRO	476,485, 474-B, 483, 484	Centra Consumers Union	2	2	\$ 36,211	\$ 36,211
GENERIC HEARING						
EBO	179	British Gas	1	1	\$ 16,678	\$ 16,678
PIPELINE CONSTRUCTION AND EXPROPRIATIONS						
EBLO	246	Union	1	1	\$ 75,657	\$ 56,699
TOTALS			16	16	\$796,319	\$660,304

*Amounts rounded to nearest dollar.

THE PUBLIC HEARING PROCESS

INITIATION

- by application for rate increase or other approval
- by reference from Lieutenant Governor in Council or Minister
- on Board's own motion.

NOTICE OF APPLICATION

- to all interested parties and/or by publication.

INTERVENTION

- notice of intent and reasons for participation in hearing by parties, known as intervenors.

PRE-HEARING DOCUMENTATION

- evidence filed by applicant prior to hearing
- Board staff and intervenors can request more information and file their own evidence.

INTERVENOR FUNDING HEARING

- hearing on applications for advance funding by intervenors

PRE-HEARING MEETINGS

- technical conferences to clarify the evidence
 - issues meeting to determine the issues to be covered
- settlement conferences to negotiate issues prior to hearing.

HEARING OF EVIDENCE

- witness panels presented by applicant, Board staff or intervenors
- cross-examination by applicant, Board staff or intervenors
- written and oral argument by each party.


BOARD DECISION/REPORT

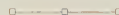
- summarizes issues and arguments
- makes findings or recommendations.

BOARD ORDER

- binding direction to implement Board decision.

BOARD STRUCTURE AND RESOURCES

The OEB is comprised of eight full-time Members including the Chair and Vice-Chair, plus three part-time Members. The Board normally sits in three-member panels to hear major cases. 



Board Members are appointed by the Lieutenant Governor in Council for terms of up to three years, upon the recommendation of the Minister of Environment and Energy after consultation with the OEB Chair. The Board is a multi-disciplinary group, including economists, lawyers, engineers, accountants and business people with knowledge of the energy industry.

HUMAN RESOURCES

The OEB operated with an approved complement of 38 staff this year, in addition to the Board Members.

The Board has 13 technical staff, who serve as case managers for OEB proceedings. They take part in hearings and are responsible for completing the public record to ensure that the Board has enough evidence to make a decision.

Technical staff also act in the public interest by recommending how the Board should resolve the issues examined during the proceeding. They develop several options balancing the interests of the parties, and usually indicate a preferred alternative. When not involved in a hearing, technical staff are available to provide assistance to the Board on matters which are not the subject of a proceeding.

The Board receives technical support and advice from two expert advisors. These advisors do not act as a party in the hearings, and can therefore assist the Board throughout the hearing and decision-making process. They also provide briefings on a number of subjects, such as industry trends, on a continuing basis.

The Board's Energy Returns Officer (ERO) monitors the financial performance of the gas utilities on an ongoing and confidential basis. If a utility's earnings appear to be out of line with its allowed rate of return, the ERO may conduct a special investigation and recommend that the Board conduct a public review of the utility's earnings and existing rates.

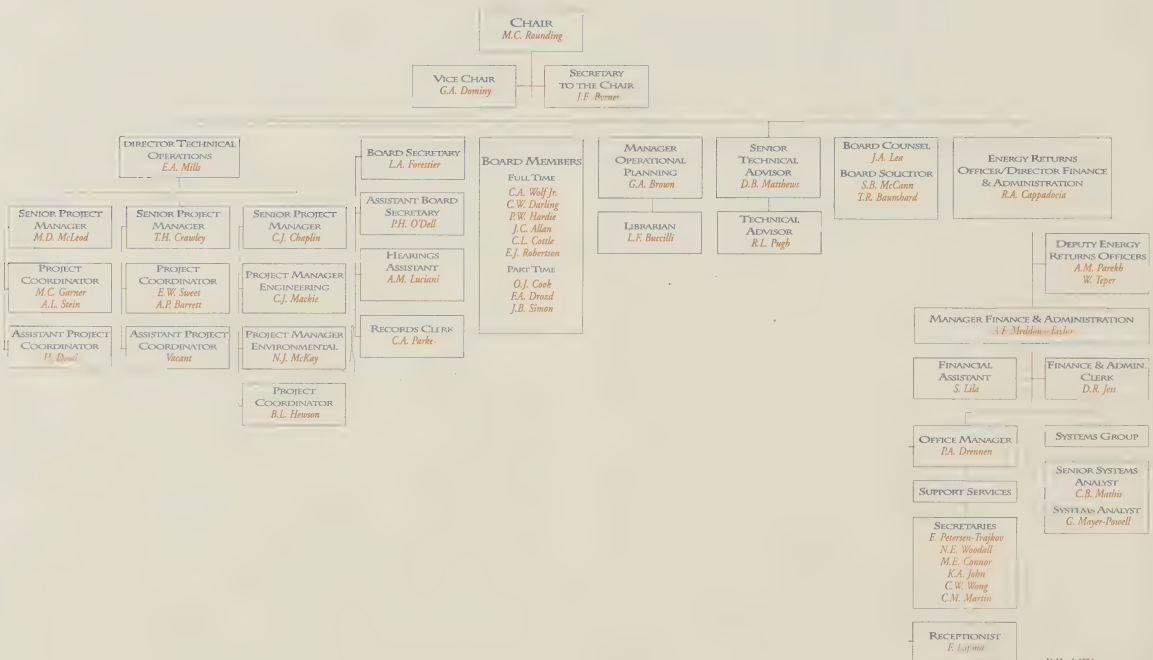
The Board Secretary is responsible for seeing that the logistics of hearings proceed smoothly and is the custodian of all official Board records. The Board Solicitor provides legal advice to Board Members and staff and acts as the assessment officer in the cost awards process. The Board Counsel represents technical staff in the hearings process. The Administrative Support Group provides management

services in the financial, human resources and facilities areas, as well as information systems support and office services.



Amy Stein,
Project
Co-ordinator

ONTARIO ENERGY BOARD



FINANCIAL REPORT

The *Ontario Energy Board Act* authorizes the Board to recover its costs by assessing the utilities involved in hearings and related activities. Following a hearing, the Board issues a cost order to the utility concerned. The amount to be paid to the Board includes out-of-pocket and direct expenses attributable to the specific hearing, as well as a contribution towards the Board's fixed costs, including overhead and payroll.

The Board recovers 100 per cent of its costs from the regulated industry. This means the full cost of the Board's operations will be recouped annually from the regulated industry, with no burden on the Ontario government.



Doreen Jess,
Finance &
Administration
Clerk

OEB SPENDING ANALYSIS 1993-94

Standard Account	Printed Estimates	Approved Budget ⁽¹⁾	Actual Expenditures
Salaries and Wages	\$2,810,500	\$2,698,500	\$2,475,619
Employee Benefits	510,800	510,800	505,475
Transportation & Communications	289,600	229,600	136,949
Services	2,186,000	708,000	1,074,180
Supplies & Equipment	380,800	380,800	142,506
TOTAL	\$6,177,700	\$4,527,700	\$4,334,729

Notes:

(1) Budgetary reductions due to Government/Ministry expenditure control initiatives.

(a) Mandated Social Contract Reductions

(b) Payroll Expenditure Freeze Savings

(c) Productivity Savings

HIGHLIGHTS: ADMINISTRATION AND OPERATIONS

IMPROVING THE QUALITY OF SERVICE

STRATEGIC PLANNING

The OEB launched a strategic planning initiative in February 1994. This initiative will lead to the development of a strategic plan and the identification of measures to improve the quality of service provided to stakeholders. The first phase will involve a survey of utilities, intervenors, the Ministry of Environment and Energy and Board personnel to gather data and input on the OEB's current and future mandate, role and processes.

TEAM-BUILDING

To pave the way for quality-of-service improvement, we conducted a team-building program — through group discussions and interaction — to foster a more efficient and

co-operative work environment. Among the positive results were increased opportunities for staff input into the Board's operating policies and practices, and improved communications within and among the various sections of the organization.

ONTARIO ENERGY BOARD ACT

In force for more than 30 years, the *Ontario Energy Board Act* requires updating in light of such trends as deregulation and direct-purchase options. We are developing recommendations on revisions to the Act for consideration by the Minister of Environment and Energy.

DRAFT RULES OF PRACTICE AND PROCEDURE

A review of our Draft Rules of Practice and

Procedure is well under way. We will finalize the changes when the pending amendments to the *Statutory Powers Procedure Act* are passed by the provincial legislature.

PLAIN-LANGUAGE FORMS

We are in the process of rewriting all our forms in plain language. A frequently used form — the notice of application — was finalized this year and is now in use.

FULL TEXT INFORMATION

We continued a project to implement a textbase of Board transcripts, decisions, orders and other documents, together with a search and retrieval system. The bulk of the OEB's key historical information has now been converted to electronic form. We are setting up a task force including representatives of the industry and other interested parties to develop electronic regulatory filing requirements, standards and timetables.

AUDIO BROADCAST FACILITY

We have established an audio broadcast facility, which carries the audio feed from hearings to Board offices and the premises of certain utilities. Listeners can follow public proceedings as they happen.

IMPROVEMENTS IN OPERATIONS

Improvements to the OEB's internal operations include introduction of a network fax facility that allows documents to be transmitted from a computer terminal, reducing the need for paper and speeding up the flow of information. We have also agreed to accept service of documents by fax. In addition, our new verbatim-reporting-services contract encourages the use of transcripts on diskette rather than hard copy, saving paper.

IMPROVEMENTS IN UTILITY FINANCIAL MONITORING

In 1993-94 the Board completed an overhaul of the system for monitoring the financial performance of gas utilities. Companies now report less but more complete and timely information to the Energy Returns Officer, providing relevant actual and fore-



Mark Garner,
Project
Co-ordinator
and Hima
Desai,
Assistant
Project
Co-ordinator

cast data as a basis for updating the projected financial outlook for the year.

We also put in place a supplementary monitoring system to track the cost of gas to each utility on a monthly basis. This is necessary because gas costs are a significant cost item, and are subject to large fluctuations with the trend toward indexed gas-supply contracts, rather than fixed-price arrangements.

In presenting financial information, the gas utilities use a Board-mandated uniform system of accounts which has not changed significantly since the mid-1960s. The Board is in the final stages of reforming the current accounting system. A March 1994 workshop completed our consultations with the industry on this subject.

LEARNING EXPERIENCES

Board Members and staff are committed to continually enhancing their knowledge and understanding of the complex issues facing the energy sector. In addition to participating in outside educational activities, Board Members and staff attend presentations at the OEB's offices by energy experts and industry organizations. During the past fiscal year, the following presentations were held at the OEB:

Energy Exchange Inc.

Gas Trading Exchange System

Natural Gas Exchange

Gas Trading Exchange System

TransCanada PipeLines Limited

New Directions and International Activities

Shell Canada

Natural Gas Demand & Supply

Mobil Natural Gas Inc.

Canadian, U.S. & Global Activities and Open

Access on U.S. Pipelines

Regulatory Changes in North America

Panhandle Eastern Gas Transmission System

The System and Its Relationship to Ontario Gas Supply

Ministry of
Environment and
Energy Green
Communities
*Energy Efficiency
Initiatives*

Bankers' Trust

*Use of Derivatives in
Risk Management of
Natural Gas Marketing*



Carolyn Parkes,
Records Clerk

Ontario Securities Commission

Options and Futures on Commodities

Ecological Services for Planning

Environmental Project Planning

OEB personnel also organized group visits to Ontario Hydro's Clarkson Control Station and Darlington Nuclear Power Station.

EXTERNAL ACTIVITIES

Outreach to stakeholders and participation in industry activities and the administrative justice community remain OEB priorities.

STAKEHOLDER RELATIONS

Senior staff of the Board continued to meet regularly with representatives of the Ontario Natural Gas Association (ONGA), which includes the three major gas utilities. This ongoing forum works to streamline and improve the cost-effectiveness of the regulatory process.

Our *Regulatory Agenda* newsletter published monthly keeps utilities, intervenors and interested parties up to date on the progress of rate applications and other Board cases and activities.

PROVINCIAL AGENCY COMMUNITY

The Ontario government has created an agency reform co-ordinating committee to oversee the implementation of proposals resulting from the recent review of provincial agencies, boards and commissions. The OEB Chair is a member of the co-ordinating committee and the OEB participates in three task forces.

The Chair headed the task force on training and education for tribunals that recommended creation of an education co-ordinator together with a process for delivering educational programs in the agency sector. The OEB's Director of Finance and Administration is on the co-ordination of administrative services task force. Among other activities, the latter group carried out initial design preparations for a generic computerized case management system to improve upon the various systems now in use at the OEB and elsewhere.

The Society of Ontario Adjudicators and Regulators (SOAR) includes agency chairs, members and executive staff. The Chair of the OEB is Secretary of SOAR's Circle of Chairs section, a member of the organization's Board of Governors and Chair of its Education Advisory Committee. SOAR organizes an annual Conference of Ontario Boards and Agencies: our Chair was on the planning committee and a speaker for the November 1993 event.

In the fall of 1993 we organized a joint seminar with the Environmental Assessment Board. The event gave Members and senior staff of both Boards the opportunity to share information and compare structures, procedures and processes, and discuss issues of mutual interest.

NATIONAL INVOLVEMENT

At the national level, the OEB participates in the Canadian Association of Members of Public Utility Tribunals (CAMPUT), comprised of members of federal and provincial public utility tribunals. Our Chair is a member of CAMPUT's Executive Committee and was Chair of the Energy Committee until September 1993. At that time she became Chair of the Regulatory Affairs Committee.

The OEB Chair also co-chaired the 1993 conference of the Council of Canadian Administrative Tribunals (CCAT), an organization of federal, provincial and territorial agencies, boards and commissions. She was elected to the CCAT Board of Directors at that event in June 1993.



Brian Hewson,
Project
Co-ordinator

SPEAKING ENGAGEMENTS

The OEB Chair as well as Board Members and staff participated in a total of 21 major events this year as speakers, panelists or chairs. Below is a list of these engagements:

CHAIR, M. ROUNDIS:

1993 Annual CAMPUT Educational Conference
May 1993
Chaired session on *The Role of Competition in the Generation of Electric Power*

1993 Annual Conference of Council of Canadian Administrative Tribunals
May - June 1993
Co-Chair

1993 Settlement Workshop
Sponsored by B.C. Gas and the British Columbia Utilities Commission
September 1993
Speaker on *The Ontario Energy Board Experience with the Settlement Process*

CAMPUT '93 Annual Conference and General Meeting
September 1993
Organizer and Chair of Energy Committee session on *Research & Development in the Gas and Electric Sectors*

Dialogue '93 — The National Dialogue on DSM Issues
September - October 1993
Group Discussion Facilitator and Member of Steering Committee

Canadian Natural Gas Marketing Annual Conference
October 1993
Speaker on *The Regulator's Contribution to the Competitive Edge*

Society for Professionals in Dispute Resolution Conference
October 1993
Speaker on *Administrative Tribunals as Resolvers of Conflict*

Industrial Gas Users Association Annual Meeting
November 1993
Keynote Speaker on *Regulatory Flexibility at the Ontario Energy Board*

Municipal Electric Association Legal Matters Seminar
November 1993
Keynote Speaker on *Emerging Trends in the Energy Industry*

Working Towards Equality: A Forum on Gender Equality in the Legal Profession, Sponsored by the Canadian Bar Association of Ontario and the Women's Law Association of Ontario
November 1993
Workshop Leader on *Working in Government Legal Departments and Administrative Tribunals* based on Madame Justice Bertha Wilson's Report on Gender Equality in the Legal Profession

Conference of Ontario Boards and Agencies
November 1993
Workshop co-panelist on *Uses and Abuses of Alternative Dispute Resolution*

International Symposium on the Future of the Electrical Power Industry
February 1994
Speaker on *New Directions: A Regulator's View*

BOARD MEMBER, J. ALLAN:

CAMPUT Annual General Meeting
September 1993
Speech on *Gas IRP at the OEB: the EBO 169 Process and Report*

BOARD MEMBER, C. COTTE:

Council of Canadian Administrative Tribunals 1993 Conference
May 1993
Panel Member — *Workshop for Economic Regulatory Tribunals*

DIRECTOR, FINANCE & ADMINISTRATION/ ENERGY RETURNS OFFICER, R. CAPPADOCIA:

Conference of Ontario Boards and Agencies
November 1993
Speech on *Administrative and Financial Relationships with Government*

DIRECTOR, TECHNICAL OPERATIONS, E. MILLS:

CAMPUT Annual General Meeting
May 1993
Speech on *Consensus Based Settlement Processes, Experiences at the OEB*

National Dialogue on DSM Issues
October 1993
Speech on *DSM Collaborative and Other DSM Processes: Enlightened Regulation or an Abdication of Responsibility*

School of Legal and Public Administration, Seneca College
November 1993
Speech on *What is Being Done in Quality Management*

IEA (International Energy Agency) Conference, Kyoto, Japan
November 1993
Joint Paper with President, Gas Technology of Canada, on *Integrated Resource Planning in Canada*

PROJECT MANAGER, ENVIRONMENTAL, N. MCKAY:

Natural Gas the Environment — Second Annual Environmental Conference for the Natural Gas Industry
November 1993
Presented workshop on *Environmental Project Planning*
Delivered Speech on behalf of Director, Technical Operations on *Factoring Environmental Costs into Energy Decisions*

REGULATORY AGENDA

GAS INTEGRATED RESOURCE PLANNING

Around the world societies are striving to minimize the economic, social and environmental costs of producing, distributing and consuming energy. A promising strategy for meeting this challenge is Integrated Resource Planning (IRP).

In the past, increasing energy needs have been met mainly by expanding the supply system – in the case of natural gas, by drilling more wells, developing more storage areas and building more pipelines. Through IRP, on the other hand, the expected demand for energy services is met by finding the least costly mix of demand-side and supply-side measures. Demand-side measures include energy efficiency, energy conservation and load management — for example, the use of high-efficiency furnaces and appliances or reducing energy consumption at expensive peak periods.

After extensive consultations on a discussion paper released in 1991, the Board decided to take a building-block approach to IRP — investigating demand-side management (DSM) issues first, to be followed by supply-side management issues, and subsequently integrating all aspects of IRP.

The Board held a DSM hearing in November and December 1992 and issued a report in July 1993. In its report the Board endorsed the need for formal DSM planning by each of the three major gas utilities, set out guidelines for the implementation of utility DSM programs, and made findings on 10 major issues.

COLLABORATIVE TO BE FORMED

The distribution and use of gas can result in costs for society that are not routinely accounted for in a utility's cost of doing business. The Board observed that effective DSM programs reduce these external costs. For example, energy efficiency lowers emissions of combustion products. The Board therefore concluded that externalities which create signifi-

cant environmental and social benefits and costs should be included in the cost analysis of DSM programs.

To encourage a consistent approach to this issue among Ontario's gas utilities, the Board endorsed the formation of a collaborative incorporating diverse interests — including, for example, the interests of customers, environmentalists and government representatives. The collaborative is to report to the Board on ways of measuring the external costs and benefits of DSM programs, and where possible expressing these costs in monetary terms. The collaborative is also to recommend processes for assessing DSM programs and portfolios qualitatively.

OTHER FINDINGS

The Board determined that the benefits of DSM should be measured by calculating the long-term avoided supply-side costs. Regarding cost-effectiveness tests, the Board described a screening process the utilities are expected to use in choosing the best of the possible DSM programs for their DSM portfolios. This screening process reviews the rate impacts of DSM programs and examines customer participation levels.

For regulatory purposes, the Board determined that OEB-approved DSM costs should be treated consistently with prudently incurred supply-side costs. The utilities would record any variance between actual and forecast DSM costs and benefits in a deferral account to be dealt with at the utility's next rates case.

On the question of who should pay for DSM, the Board concluded that the beneficiaries of a program should pay the costs involved to the extent possible. However, the Board may be prepared to accept some level of rate impact and cross-subsidization — which occurs when one customer group bears some of the costs of a program that benefits a different customer group.

Under the current regulatory system, utility profits are linked to the volume of gas delivered. The question arises as to whether this link creates a disincentive for utilities to undertake DSM programs that have the potential to reduce their volumes. The Board found no need for incentives or decoupling of profits from gas deliveries at this time.

The Board cited effective monitoring and evaluation as a critical element in both the development and implementation of DSM programs. We outlined an evaluation process the utilities are expected to follow in assessing the performance of their DSM initiatives.

While gas consumers, like virtually all consumers, react to prices, the Board concluded that there is no evidence that present rate structures are acting as a barrier to energy-efficiency measures. Therefore the Board found that a review of rate design was not necessary at this time. However, the Board recommended that energy-efficiency impacts should be considered in any future review of rate structures.

On the issue of jurisdiction, the Board concluded that it has sufficient jurisdiction under the *Ontario Energy Board Act* to review DSM plans and to issue guidelines to the utilities. The Board asked the utilities to present their DSM plans no later than as part of their fiscal 1995 rates cases. We encouraged each utility, in developing its plan, to seek input from appropriate parties through a consultative group.

EBO 169, 169-II, 169-III (Report July 23, 1993).

OEB TO REVIEW 1995 BULK HYDRO RATES

There was no OEB review of Ontario Hydro during 1993, as Hydro did not propose to change its bulk power rates in 1994.

In February 1994 Hydro submitted to the Minister of Environment and Energy a proposal for a 1.4 per cent average bulk power rate increase, to take effect on January 1, 1995. The Minister promptly referred the matter to the OEB for a public hearing and report.

In addition to weighing Ontario Hydro's rate proposal, the Board was asked to review the restructuring carried out to date at Ontario Hydro, as well as the corporate objectives being pursued through the restructuring. Also, the Board is to examine Ontario Hydro's experience with the experimental surplus power rate, in which surplus power is priced below current rates but still generates net revenue for

Hydro. The reference from the Minister explicitly excluded from the Board's consideration any review of options for changes to the ownership and structure of the electricity sector in Ontario.

The Board scheduled the hearing to begin in May 1994.

HR 22.

NATURAL GAS RATES HEARINGS

CONSUMERS GAS MAIN RATES — FISCAL 1994

Consumers Gas applied to the Board in April 1993 for an increase in rates for its 1994 fiscal year, beginning October 1, 1993. The company did not propose to update its gas costs as part of the main rates case, due to the timing of the proceeding.

The application included a proposed rate surcharge to be applied to expansions of the distribution system that are not economically feasible under current rates. The surcharge of 5 cents per cubic metre was designed to augment the current practice of collecting contributions in aid of construction from prospective customers prior to the start of an uneconomic extension project.

In its decision, the Board determined that although the surcharge proposal was innovative, it could not be approved at present because a number of concerns remained unresolved. These concerns included: the appropriate basis for collection of the surcharge; the anticipated effect of the program in future years; and the discrimination involved in charging different rates to customers in the same rate class.

On an interim basis, the Board approved new rates effective October 1, 1993 that were implemented on or before the company's first billing cycle after January 31, 1994. The financial highlights of the Board's decision are outlined in the table below.

CONSUMERS GAS: SUMMARY OF FINANCIAL DATA FISCAL 1994

	Requested	Allowed
	\$ Million	
Rate Base	2,247.8	2,244.9
Utility Income	245.8	245.3
Gross Revenue Excess	14.0	29.7
	Percentage	
Indicated Rate of Return	10.94	10.93
Required Rate of Return	10.59	10.18
Common Equity Ratio	35.00	35.00
Rate of Return on Common Equity	12.625	11.60

EBRO 485 (Decision with Reasons December 23, 1993).

CONSUMERS GAS INTERIM RATES

Consumers Gas filed a motion with the Board in October 1993 requesting a revision to its rates to reflect the higher costs of its recently renegotiated gas-supply contracts. The Board accepted a reference price of \$126.439 per thousand cubic metres and approved, on an interim basis, rates based on the new gas costs.

The rates for all customers were made effective November 1, 1993 with a staged implementation reflecting the inventory of gas available for each specific rate class. The latest stage was for residential and general service customers, whose rate increase was combined with the implementation of rates resulting from the company's fiscal 1994 main rates decision.

EBRO 485-01 (Decision December 9, 1993).

CONSUMERS GAS MAIN RATES — FISCAL 1995

In January 1994 Consumers Gas filed an application for its rates for fiscal 1995, beginning October 1, 1994. In its application the company projected a \$30.1 million shortfall in revenue under current rates, based on a 10.22 per cent overall requested rate of return. The company applied for a 12.375 per cent rate of return on common equity with a common equity component of 35 per cent.

Included in the filing was Consumers Gas' first DSM plan, which was developed in response to a directive from the Board in the EBO 169-III report.

The hearing was scheduled to begin in June 1994.

EBRO 487.

CENTRA INTERIM RATES

In an interim decision in January 1993, the Board rejected the gas costs arising from a proposed restructuring of Centra's long-term supply contract with Western Gas Marketing Limited (WGML) for the period commencing November 1, 1992. Furthermore, the Board refused to allow into rates the gas-cost consequences of the fallback price of \$1.98 per gigajoule, stating that it expected Centra to reopen negotiations with WGML.

In March 1993, Centra filed an amended notice of motion, requesting approval of a firm weighted average cost of gas (WACOG) of \$1.89 per gigajoule. Centra stated that it had been unsuccessful in renegotiating the 1993-contract-year price with WGML. After hearing evidence on the amended motion in April 1993, the Board approved the revised forecast WACOG of \$1.89 per gigajoule.

EBRO 474-A (Interim Decision January 11, 1993; Reasons for Interim Decision February 18, 1993; Final Decision with Reasons June 3, 1993).

CENTRA MAIN RATES — 1993 AND 1994/NUTRITE SPECIAL RATE

The Board issued a notice to Centra in February 1993 that on the Board's own motion it would inquire into Centra's rates and other charges for the 1993 fiscal year beginning January 1. Upon receipt of the notice, Centra requested that the hearing into

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its 1993 rates be combined with its 1994 rates application.

In May 1993 Centra applied to the Board for a rate increase for its 1994 fiscal year. The Board combined the rates proceedings for the two years.

In October 1992 Nutrite Inc. (formerly Nitrochem Inc.) had filed an application with the Board requesting a variance to Rate 20A, Centra's customer-specific rate for Nutrite that had been previously established by the Board. At that time the Board decided to hear the application with Centra's next main rates case. Accordingly, the Nutrite application was combined with Centra's proceedings for the 1993 and 1994 fiscal years.

Centra projected a revenue excess of \$1.2 million for 1993, based on a proposed 11.36 per cent overall rate of return, which included a rate of return on common equity of 13.25 per cent, on a proposed average rate base of \$553.1 million. For 1994, Centra projected a revenue deficiency of \$3.3 million based on an overall rate of return of 11.34 per cent, including a 13.25 per cent rate of return on common equity, on a proposed average rate base of \$609.3 million.

The Board sponsored a five-day settlement conference in August 1993, which resulted in an agreement among Centra, Board staff and intervenors that was presented to the Board for consideration. The hearing of the combined proceedings was held in October 1993, with the Board's decision pending at the end of the OEB's fiscal year.

In October 1993 Centra filed a motion for an interim order reflecting a revised forecast of firm gas costs. For ratemaking purposes, Centra proposed to combine its forecast firm WACOG of \$2.26 per gigajoule with its available gas inventory valued at \$1.89 per gigajoule. The resulting WACOG was \$2.17 per gigajoule. The Board rejected the inclusion of the inventory adjustment, approving a WACOG of \$2.26 per gigajoule, effective November 1, 1993.

In March 1994 Centra filed another motion requesting approval of a revised gas-cost forecast for fiscal 1994 of \$2.29 per gigajoule based on changes in its gas-contract prices. A hearing was scheduled for April 1994.

EBRO 474-B/483/484 (Interim Gas Cost Decision November 4, 1993).

CARDINAL POWER SPECIAL RATE

Cardinal Power, in eastern Ontario, filed a series of applications in February 1992 for authority to construct a pipeline bypassing Centra's gas distribution network, and running from the TransCanada PipeLines system to the proposed Cardinal cogeneration plant (EBLO 242 et al.). The plant would use natural gas as a fuel to produce both electricity for sale to Ontario Hydro and steam to be sold to the Canada Starch Operating Company Inc.

Prior to the hearing, Cardinal reached an agreement with Centra for a bypass-competitive rate, with the understanding that Centra would therefore construct and operate the pipeline if the Board approved the rate. Cardinal then requested that its earlier applications be held in abeyance, and in August 1992 filed an amended application for the Board's approval of a bypass-competitive rate on Centra's system of \$4.80 per thousand cubic metres, fixed for five years (EBRO 477).

The hearing was held in February 1993 and the Board's decision issued in May 1993. The Board found that Cardinal Power had not satisfied the OEB's criteria for evaluating bypass-competitive rates and that it would not be in the public interest to grant Cardinal such a rate.

Also in August 1992, Centra had filed an application (EBLO 245) for an order granting Centra leave to construct a natural gas pipeline and ancillary facilities in the Village of Cardinal. This project was proposed in the event Cardinal Power did not receive OEB approval for a by-pass rate. In September 1993, Centra requested an exemption from a public hearing for this project (PL 82) and in November 1993 the Board granted the exemption.

EBRO 477 (Decision May 27, 1993); EBLO 245 (Decision November 15, 1993).

UNION GAS MAIN RATES — FISCAL 1993 AND 1994

In September 1991 Union submitted an application to the Board for the purpose of setting rates for the sale, distribution, transmission and storage of gas for the 1993 and 1994 fiscal years — commencing April 1, 1992 and 1993, respectively. After hearing evidence, the Board set rates on an interim basis for Union's 1993 fiscal year (EBRO 476-01).

A second hearing (EBRO 476-03) was held in February 1993 to finalize rates for both fiscal 1993 and 1994. In June 1993, before the Board released its decision, Union filed updated gas costs for fiscal 1994.

In its decision, the Board finalized rates for fiscal 1993. To accommodate the cost-of-gas update, interim rates were approved for fiscal 1994, commencing April 1, 1993 and continuing until the Board has reviewed the updated evidence. The financial highlights of the Board's decision are outlined in the summary table below.

UNION: SUMMARY OF FINANCIAL DATA FISCAL 1993

	Requested	Allowed
		\$ Million
Rate Base	1,638.0	1,637.8
Utility Income	189.3	190.5
Gross Revenue Excess	2.3	9.6
		Percentage
Indicated Rate of Return	11.56	11.63
Required Rate of Return	11.49	11.31
Common Equity Ratio	29.00	29.00
Rate of Return on Common Equity	13.50	13.00

UNION: SUMMARY OF FINANCIAL DATA FISCAL 1994

	Requested	Allowed
		\$ Million
Rate Base	1,813.9	1,776.7
Utility Income	185.8	189.4
Gross Revenue Deficiency	32.9	9.7
		Percentage
Indicated Rate of Return	10.24	10.66
Required Rate of Return	11.27	10.97
Common Equity Ratio	29.00	29.00
Rate of Return on Common Equity	13.75	12.50

EBRO 476-03 (Decision with Reasons July 9, 1993).

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UNION GAS INTERIM RATES (GAS COSTS)

Union filed a notice of motion in June 1993 and an amended notice of motion in July 1993 for OEB approval of the gas-cost consequences of renegotiated gas-supply contracts for the period commencing April 1, 1993. Union requested that the Board approve a fiscal 1994 forecast WACOG of \$105.664 per thousand cubic metres based on several renegotiated contracts.

At the time of the hearing, Union was unable to discuss the price and provisions in the WGML contract, since the producers had not yet voted on the renegotiated terms and Union still had other outstanding gas-supply contracts to renegotiate. Because of the uncertainty, Union requested that the Board approve, on an interim basis, an updated forecast WACOG of \$109.594 per thousand cubic metres for fiscal 1994.

In an oral decision, the Board accepted Union's forecast WACOG, effective April 1, 1993, on an interim basis. The Board ordered the implementation of the new rates commencing October 1, 1993. Union was also directed to file updated gas-cost evidence following the conclusion of its negotiations with WGML.

EBRO 476-04 (Oral Decision August 20, 1993).

UNION GAS MAIN RATES — FISCAL 1995

In December 1993 the Board provided notice that it would, of its own motion, inquire into and determine rates and other charges for Union's 1995 fiscal year commencing April 1, 1994. The hearing had not been scheduled as of the end of the OEB's fiscal year.

EBRO 486.

NATURAL RESOURCE GAS MAIN RATES — FISCAL 1993 AND 1994

NRG applied in June 1992 for an order regarding its rates for its 1993 fiscal year commencing October 1, 1992. Subsequently, in June 1993, NRG amended its application to also provide for a review of its rates for the 1994 fiscal year commencing October 1, 1993.

In a January 1994 decision, the Board found a fiscal 1993 revenue excess of \$280,201 — or approximately \$0.50 per thousand cubic feet. The Board determined that the customer credits resulting from the revenue excess should be based on the actual volume consumed by each customer during the fiscal 1993 period. For fiscal 1994, the Board determined that the revenue excess was \$160,480 — or approximately \$0.29 per thousand cubic feet.

The Board decided on a March 1, 1994 implementation date for the Board-approved fiscal 1994 rates and the refund of applicable 1993 and 1994 customer credits. The financial highlights of NRG's request and the OEB's decision are outlined in the following summary table.

NRG: SUMMARY OF FINANCIAL DATA FISCAL 1993

	Requested	Allowed
	\$ Million	
Rate Base	4.89	4.89
Utility Income	0.71	0.71
Gross Revenue Excess	0.20	0.28
	Percentage	
Indicated Rate of Return	14.44	14.60
Required Rate of Return	12.19	11.41
Common Equity Ratio	39.70	39.70
Rate of Return on Common Equity	14.00	13.00

NRG: SUMMARY OF FINANCIAL DATA FISCAL 1994

	Requested	Allowed
	\$ Million	
Rate Base	5.47	5.45
Utility Income	0.64	0.70
Gross Revenue Excess (Deficiency)	(0.05)	0.16
	Percentage	
Indicated Rate of Return	11.74	12.82
Required Rate of Return	12.25	11.18
Common Equity Ratio	41.74	41.90
Rate of Return on Common Equity	14.00	12.50

EBRO 480 (Decision January 25, 1994).

JOINT COST OF GAS HEARING

During the summer and fall of 1993, the Board received requests from Consumers Gas, Union and Centra for increases in rates to reflect increases in gas prices under renegotiated supply contracts. In reviewing the requests, the Board noted that all three utilities had contracted for substantial volumes of natural gas under contracts indexed to prices on the New York Mercantile Exchange (NYMEX) and other market indexes.

Three panels of the Board held a joint hearing in December 1993 to review issues that were common to the gas-supply contracts of the three utilities. These common issues included: the appropriateness of formula pricing; the appropriateness of the particular formulas and indexes selected; the gas-cost consequences; and risk allocation and mitigation.

The Board heard testimony on the movement toward indexed gas-supply contracts in North America and the reasons for these changes. While fixed one-year contracts were the norm when gas prices were falling, this option is not as readily available in a rising market. Expert witnesses also presented evidence on the use of financial derivatives as a means of mitigating the risks associated with indexed contracts. Following this joint hearing, separate hearings were held for each utility in January 1994 on their specific gas-costs issues.

In a joint partial decision with reasons issued in February 1994, the Board accepted for ratemaking purposes the gas-cost consequences of each utility's gas-supply portfolio. On the issue of risk management, the Board stated that it expects the utilities to take advantage of the flexibility in their gas-supply

portfolios in the best interests of the ratepayers. The Board noted that it intends to scrutinize the risk-management activities of each utility in after-the-fact reviews in their next rates cases.

To deal with the potential for large movements in gas prices after rates are set, the Board directed each utility to notify the Board if the accumulated balance in the Monthly Gas Variance Account (MGVA) or the forecast year-end balance in the Purchased Gas Variance Account (PGVA) exceeds the "trigger" amount. The MGVA and PGVA track the difference between the forecast and actual cost of gas on a monthly and annual basis, respectively.

The Board set the trigger at the PGVA balance that would result in a year-end charge or credit to residential customers of \$10 or more. In the event the trigger amount is exceeded, the utilities would be required to make recommendations to the Board for changing the rates, or provide the rationale for not changing the rates.

UTILITY-SPECIFIC ASPECTS

At the *Consumers Gas* hearing, the utility provided an update to its prefiled gas-cost evidence to reflect the conclusion of negotiations with gas suppliers, revised prices from indexed gas-supply contracts, and corrected fuel-cost evidence. The Board accepted a reference price of \$2.20 per gigajoule effective November 1, 1993.

EBRO 485-02 (Interim Decision January 21, 1994; Joint Partial Decision with Reasons February 15, 1994).

After hearing evidence specific to *Centra*, the Board approved a reference price of \$2.26 per gigajoule for November and December 1993 and \$2.15 per gigajoule commencing January 1, 1994.

EBRO 474-B/483/484 (Joint Partial Decision with Reasons February 15, 1994).

In its decision after the *Union* hearing, the Board finalized Union's fiscal 1994 PGVA reference price at \$109.594 per thousand cubic metres, which was unchanged from the interim level established in EBRO 476-04. The Board also accepted on an interim basis Union's proposed PGVA reference price of \$118.50 per thousand cubic metres for the period April 1, 1994 to October 31, 1994, which was based on annualized fiscal 1994 gas costs.

EBRO 476-06 (Joint Partial Decision with Reasons February 15, 1994; Decision March 22, 1994).

PIPELINE APPLICATIONS

UNION — ST. MARY'S TO BEACHVILLE

In April 1991 the Board conditionally approved the construction of the St. Mary's to Beachville pipeline in southwestern Ontario. However, as of May 1993 the conditions had not been met and the line had not been constructed, leading the Board to reopen the matter to determine if the line was still required. In June 1993 the Board issued an oral decision stating that it would not vary nor rescind its approval. Construction of this section of line began in summer 1993 and was completed in the fall.

EBLO 234 Phase II Reopened (Oral Decision June 16, 1993).

UNION — BRIGHT TO OWEN SOUND

Union filed an application to construct 18.1 kilometres of pipeline extending from Union's Bright compressor station to its Owen Sound line valve site in the Waterloo region. The case was heard in March 1993. Prior to release of the decision, Union informed the Board in April that the line was no longer required for 1993, as Union had been assigned additional capacity on the Trafalgar system by TransCanada PipeLines Limited. Union sought an extended construction period to allow it to build this section of pipeline in 1994.

The hearing was reopened in May 1993. The Board denied the application on the grounds that there was uncertainty and confusion surrounding the need for the pipeline.

EBLO 240 (Decision May 27, 1993).

UNION — ENNISKILLEN TO BROOKE

In December 1993 Union applied to the OEB for leave to construct a pipeline from the Enniskillen valve site to the Brooke valve site. This line is a continuation of Union's construction plans on the Trafalgar system in southwestern Ontario. The hearing was scheduled to begin in April 1994.

EBLO 246.

CENTRA — STIRLING TO MADOC

Centra applied to the Board in May 1993 for authorization to construct a 27-kilometre pipeline from the Village of Stirling to the Village of Madoc in eastern Ontario, and a further six kilometres of line continuing west to connect with IKO Industries, located north of Belleville. Centra filed motions to deny intervenor status to Consumers Gas and to exclude certain evidence. After hearing the motions, the Board approved the intervention of Consumers Gas but ordered the exclusion of its prefiled evidence.

A five-day hearing on the pipeline application began in August 1993. In an oral decision in September, the Board approved the proposed pipeline route and construction practices, but found that Centra had not provided sufficient evidence on economic feasibility with respect to the involvement of IKO Industries. The Board permitted Centra to file additional evidence on this one issue, and reopened the hearing later in the month.

In its decision the Board approved the leave-to-construct application subject to certain conditions. One of the conditions was that Centra file with the Energy Returns Officer a copy of the pledge agreement between it and IKO Industries within seven days of its execution.

EBLO 247/EBC 204, 205/EBA 666, 667, 668 (Decision with Reasons December 22, 1993).

UNION - BICKFORD TO DAWN

Union applied in June 1992 for leave to construct 16.7 kilometres of line from the Bickford storage pool to the Dawn compressor station in south-western Ontario, and to construct several gathering pipelines within the designated gas storage area. Union also applied to the Ministry of Natural Resources for permits to drill six more wells within the Bickford storage area, to improve the deliverability of the pool.

After a January 1993 hearing in London, the Board did not approve the application, but invited Union to reopen the hearing any time prior to December 31, 1993 should it wish to file additional evidence. The Board made no recommendation to the Minister of Natural Resources concerning the drilling permit applications.

In June 1993 Union filed a notice of motion requesting the Board to reopen the hearing with additional evidence. The Board granted the request and the hearing continued in Toronto shortly thereafter. The Board again found that Union had failed to establish the need for the project.

EBLO 244/EBRM 104 (Oral Decision June 28, 1993; Decision with Reasons September 3, 1993).

UNION — GRAND BEND PROJECT

Union applied in November 1993 for approval to construct 25 kilometres of pipeline from the intersection of Highway 79 and Highway 21 to the Village of Grand Bend on Lake Huron. The application was heard in March 1994, along with several certificate and franchise applications. The Board approved the project in an oral decision.

In its evidence Union indicated that it planned to collect a market contribution of \$10 from each new customer in order to improve the profitability of the project. The Board stated that it intended to review the principle of market contributions in the next Union rates application. The Board noted, however, that even without a customer market contribution, this project achieved a profitability index (the ratio of benefits to costs) of 0.72.

EBLO 248/EBA 676/EBC 207 (Oral Decision March 16, 1994)

OTHER REPORTS**ASSIGNMENT OF GAS STORAGE DESIGNATION FROM TECUMSEH TO CONSUMERS GAS**

On the Board's recommendation, the Lieutenant Governor in Council previously granted leave to Consumers Gas to acquire the shares of and merge with Tecumseh Gas Storage Limited (Tecumseh). The merger was effective as of September 30, 1992.

As the final step in the amalgamation, Tecumseh and Consumers Gas jointly applied to the Board in August 1992 for an order permitting the assignment to Consumers Gas of the authority previously granted by the Board to Tecumseh to inject, store and remove gas and to have access to the land for these purposes. In December 1992 the Board asked for written submissions from Board staff and inter-

venors, and in May 1993 granted the assignment of authority as requested by the applicants.

EBO 176 (Decision May 26, 1993).

PROPOSED SALE OF CONSUMERS GAS BY BRITISH GAS ET AL. TO INTERPROVINCIAL PIPELINE SYSTEM INC.

In December 1990 British Gas and related companies (British Gas et al.) received leave of the Lieutenant Governor in Council to purchase Consumers Gas, and signed various undertakings as part of their obligations. Among other provisions, British Gas et al. agreed to obtain approval from the LGIC before taking any action that would cause a change in the ownership of the Consumers Gas shares. The undertakings also provided that British Gas would not make any changes to certain support arrangements relating to Consumers Gas' debt without prior OEB approval.

In November 1993 British Gas et al. signed a letter of agreement with Interprovincial Pipeline System Inc. (IPL) regarding the sale of British Gas Finance Canada Limited to IPL. British Gas Finance Canada Limited owns or controls 85 per cent of the outstanding common voting shares of Consumers Gas. The sale therefore constitutes a change in control of Consumers Gas under the undertakings.

In December 1993 an application for leave of the LGIC was made to the Board as required by the undertakings. British Gas also requested Board approval for IPL to assume the obligations relating to the support arrangements. Further, British Gas requested to be released from all the outstanding undertakings if the sale is permitted to go ahead.

The hearing was held in March 1994, and the Board's report and recommendation to the LGIC were pending at the end of the OEB fiscal year.

EBO 179.

JOINT HEARING ON DIRECT-PURCHASE ISSUES: CONSUMERS GAS, CENTRA AND UNION

The Ministry of Environment and Energy and the OEB cosponsored a one-day workshop in June 1993, for the purpose of discussing direct-purchase issues.

Direct purchase occurs when an Ontario customer buys gas directly from producers in Western Canada or through an agent, marketer or broker, instead of from the local gas utility in Ontario. Under this arrangement, customers or their agents sell the directly purchased gas to the local utility at a "buy/sell" reference price approved by the OEB. The utility transports the gas to each customer's location in Ontario, and resells it to the customer at the standard rate, which includes the transportation costs.

At the workshop, utilities, brokers and other parties discussed four main issues:

- minimum conditions of supply — for example, the length of time customers must commit to supply gas in order to be allowed access to the utility's pipeline system;
- the utilities' return-to-system policies — that is, the terms on which customers can resume buying gas from the utility
- buy/sell pricing methodology — the method used to set the buy/sell reference price paid to the broker or agent; and
- terms and conditions relating to buy/sell arrangements.

A summary of the concerns expressed at the workshop was provided to the Board and the Ministry through minutes of the meeting. After reviewing the minutes, the Board decided to hold a joint hearing of all three utilities (Consumers Gas, Centra and Union) to examine the four topics discussed at the workshop. The Board opted for a joint hearing because the issues were common to all three companies.

Partial agreement on two of the four items was reached at a three-day settlement conference in July 1993, and presented to the Board for consideration. The hearing was held in September and October, with argument concluding in November. The Board's decision was pending at the end of the OEB fiscal year.

EBRO 474-B/483/484/485/476.

LIST OF PROCEEDINGS

The following is a tabular listing of all proceedings arising from applications and references received or initiated by the Board during the fiscal year ended March 31, 1994. Also listed are proceedings arising in earlier years and dealt with by the Board in the 1993-94 fiscal year.

CASE FILE TYPE NUMBER	APPLICANT	CASE DESCRIPTION
REFERENCE FROM THE MINISTER OF ENVIRONMENT AND ENERGY REGARDING ONTARIO HYDRO		
HR 22	Ontario Hydro	Bulk Power Rates Fiscal Year 1995
NATURAL GAS RATES APPLICATIONS		
EBRO 474-A	Centra	Interim Rates (Cost of Gas Motion)
EBRO 474-B	Nutrite (formerly Nitrochem)	Vary Special Rate
EBRO 483/484	Centra	Main Rates Fiscal 1993 & 1994
EBRO 461	Algoma	Special Rate
EBRO 475	Domtar	Special Rate
EBRO 476	Union	Main Rates Fiscal 1993 & 1994
EBRO 476-03	Union	Interim Rates
EBRO 476-04	Union	Interim Rates (Cost of Gas Motion)
EBRO 476-06	Union	Interim Rates (Cost of Gas Motion)
EBRO 477	Cardinal Power	Special Rate
EBRO 480	NRG	Main Rates Fiscal 1993 & 1994
EBRO 485	Consumers Gas	Main Rates Fiscal 1994
EBRO 485-01	Consumers Gas	Interim Rates (Cost of Gas Motion)
EBRO 485-02	Consumers Gas	Interim Rates (Cost of Gas Motion)
EBRO 486	Union	Main Rates Fiscal 1995
EBRO 487	Consumers Gas	Main Rates Fiscal 1995
PIPELINE CONSTRUCTION		
EBLO 240	Union	Bright to Owen Sound
EBLO 242	Cardinal Power	Village of Cardinal
EBLO 234 Phase II Reopened	Union	St. Mary's to Beachville
EBLO 244/EBRM 104	Union	Bickford to Dawn
EBLO 245	Centra	Village of Cardinal
EBLO 246	Union	Enniskillen to Brooke
EBLO 247	Centra	Stirling to Madoc
EBLO 248	Union	Grand Bend Project
GENERIC HEARING		
EBO 169/169-II/169-III	Ontario Energy Board	Gas Integrated Resource Planning
FRANCHISE RENEWALS		
EBA 374/374A Reopened	Consumers Gas	City of St. Catharines
EBA 606	Fort Frances	Town of Fort Frances
EBA 625/EBC 111/119		
Re-opened	NRG	South West Oxford
EBA 652	Union	Township of Bentinck
EBA 653	Union	Township of Holland
EBA 654	Union	Township of Wilmot
EBA 655	Union	Township of Holland
EBA 656	Union	Town of Southold
EBA 657	Union	Town of West Luther
EBA 658	Union	Town of Metcalfe
EBA 659	Union	Township of Wallace
EBA 663	Centra	Township of Neebing

CASE FILE TYPE NUMBER	APPLICANT	CASE DESCRIPTION
EBA 664	Centra	Township of Shuniah
EBA 665	Union	Township of Brant
EBA 669	Union	County of Bruce
EBA 671	Union	Town of Walkerton
EBA 672	Union	County of Elgin
EBA 673	Union	Township of Elma
EBA 674	Union	Village of West Lorne
EBA 675	Consumers Gas	Town of Pelham
EBA 677	Union	Township of Aldborough
EBA 681	Union	City of Waterloo
EBA 682	NRG	County of Elgin

NEW FRANCHISE AND CERTIFICATE APPLICATIONS

EBA 447/EBC 151 Amended	Centra	Township of Alberton
EBA 627/EBC 198	Cardinal Power	Village of Cardinal
EBA 660/EBC 201	Centra	Township of Atwood
EBA 661/EBC 202	Centra	Township of Dilke
EBA 662/EBC 203	Centra	Township of LaValle
EBA 666/EBC 204	Centra	Village of Madoc
EBA 667/EBC 205	Centra	Township of Huntingdon
EBA 668	Centra	Township of Madoc
EBA 670/EBC 206	Union	Village of Zurich
EBA 676/EBC 207	Union	Village of Grand Bend
EBA 678/EBC 208	Union	Village of Erieau
EBA 679/EBC 209	Union	Township of Eramosa
EBA 680/EBC 210	Union	Township of Oakland

CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

EBC 211	Potter Station Power Co.	Potter Station
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PIPELINE EXEMPTIONS

PL 81	Centra	Lake Superior Power
PL 82	Centra	Cardinal Power
PL 83	Union	West Windsor Cogeneration Line

UNIFORM ACCOUNTING ORDERS

UA 91	Centra	Orillia Reinforcement Project
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APPROVALS UNDER CURRENT UNDERTAKINGS

EBO 175	Union	Storage space from Consumers to St. Lawrence
EBO 176	Tecumseh & Consumers	Gas Storage
EBO 177-01	Union	Union/Westcoast Undertakings
EBO 177-02	Union	Undertakings
EBO 177-03	Union	Undertakings
EBO 178	Union	Amend GMI Storage Contract
EBO 179	British Gas	British Gas sale to IPL
EBRLG 34-06	Centra	Westcoast Energy Inc.
EBRLG 34-07	Centra	Employee Loan
EBRLG 34-08	Centra	St. Clair Pipelines
EBRLG 34-09	Centra	Employee Loan
EBRLG 35-13	Consumers Gas	Spot Gas Purchases
EBRLG 35-14	Consumers Gas	Great West Energy

OTHER CASES

EBRO 476-05	Union	Section 30 Motion
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JOINT/COMBINED HEARINGS

EBRO 476/474-B/483/484/485	Consumers Gas/Centra/Union	Direct Purchase
EBRO 485-02/483/484/476-06	Consumers Gas/Centra/Union	Costs of Gas

PUBLIC PARTICIPATION

The following individuals, organizations and companies appeared before the Ontario Energy Board at least once during the 1993-94 fiscal year.

Alberta Petroleum Marketing Commission
 A.E. Sharp Limited
 Amoco Canada Petroleum Canada Ltd.
 Boise Cascade Canada Ltd.
 Campbell, Keith D.
 Canadian Independent Gas Marketing Association
 Canadian Petroleum Association
 Centra Gas Ontario Inc.
 Certain Named Universities
 Cibola Canada Energy Marketing Co.
 City of Kitchener
 CNG Transmission Corporation
 Consumers' Association of Canada
 Consumers Gas
 Direct Energy Marketing Limited
 Dow Chemical Canada Inc.
 ECNG Inc.
 Energy Probe
 F. & V. Energy Co-operative Inc.
 Gaz Metropolitan, Inc.
 Gazifere Inc.
 Great West Energy Ltd.
 Industrial Gas Users Association
 Inco Limited
 LeSage Fuels
 London Board of Education Gas Purchase Consortium
 Municipal Gas Corporation
 Mutual Gas Association
 Natural Resource Gas Limited
 New England Power Company
 Nitrochem Inc.
 North Canadian Marketing Inc.
 Northland Power
 Northridge Gas Marketing Inc.
 Novacor Chemicals (Canada) Ltd.

Ontario Coalition Against Poverty
 Ontario Petroleum Institute Inc.
 Ottawa-Carleton Gas Purchase Consortium
 Petro Canada
 Pollution Probe
 Provincial Pipeline Corporation
 Residents Interested in Gas Service
 Terra International (Canada) Inc.
 Toronto-Residential Air Handling Group
 TransCanada PipeLines Limited
 Unigas Corporation
 Union Gas Limited
 Walpole Island First Nation
 Westcoast Gas Service Inc.
 Western Gas Marketing Limited

GLOSSARY OF TERMS

COMMON EQUITY RATIO

The ratio of the common equity to the total capital of a company.

GIGAJOULE (GJ)

A measure of energy equal to 1 billion (10^9) joules. A typical residential consumer of gas might use about 130 gigajoules per year for household heating.

INDICATED RATE OF RETURN

The rate of return that a utility earns under a given set of approved rates.

RATE BASE

The amount that a utility has invested in gross assets that are used or are useful in providing service, net of accumulated depreciation, plus an allowance for working capital and any other items which the Board may determine. Rate base may also be net of accumulated deferred income taxes.

RATE OF RETURN ON COMMON EQUITY

Utility income applicable to the common equity component of a utility's total capital, that a utility earns or is authorized to earn, expressed as a percentage of the amount of common equity approved for inclusion in the utility's capital structure.

RATE OF RETURN ON RATE BASE

Utility income, after taxes, that a utility earns or is authorized to earn, expressed as a percentage of the rate base. This return is not guaranteed to the utility. Rather, this is the return that the company has a reasonable opportunity to earn given forecast conditions.

REQUIRED RATE OF RETURN

The rate of return that a utility proposes it needs to earn in order to achieve a reasonable return under an assumed set of projected conditions.

REVENUE DEFICIENCY

The shortfall between the revenues required to achieve the allowed annual level of earnings previously established by the Board and the revenues that will be produced with currently approved rates.

REVENUE REQUIREMENT

The amount of revenue that a utility must recover through rates to cover its costs of providing service. The costs are determined by adding the allowed expenses of the utility to the approved return on rate base.


*The Ontario Energy Board is located at:
2300 Yonge Street, Suite 2601
Toronto, Ontario M4P 1E4
Telephone (416) 481-1967*

*Copies of the Annual Report in English and in French and other Board publications may be purchased from the Ontario Government Bookstore, 880 Bay Street, Toronto.
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